

SENATE BILL REPORT

SB 5753

As Reported by Senate Committee On:
Financial Institutions, Housing & Insurance, February 25, 2009

Title: An act relating to real estate excise tax exemptions to stabilize neighborhoods.

Brief Description: Providing real estate excise tax exemptions to stabilize neighborhoods.

Sponsors: Senators Berkey, Benton, Hobbs, Sheldon, Marr and Kline.

Brief History:

Committee Activity: Financial Institutions, Housing & Insurance: 2/18/09, 2/25/09 [DPS-WM].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Majority Report: That Substitute Senate Bill No. 5753 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Berkey, Chair; Hobbs, Vice Chair; Franklin and McDermott.

Staff: Diane Smith (786-7410)

Background: The sale of real property in Washington is generally subject to real estate excise tax (REET). This tax is usually imposed on the seller of the property, and is generally paid to the county treasurer where the property is located at the time of sale. The state REET assessment is 1.28 percent of the selling price.

The local government in which the property is located may also assess REET. The rate varies from the assessment of an additional 1.50 percent in Friday Harbor to 0.00 percent in nine cities in eastern Washington and one city in western Washington, as of December 1, 2008.

The proceeds of the state REET go into the General Fund. The proceeds of the local REET are used for financing capital projects, to acquire and maintain conservation areas, or to develop affordable housing.

Summary of Bill (Recommended Substitute): Sales of qualifying residential housing units to qualifying buyers are exempt from the state REET until \$750,000 of tax is exempted in any fiscal year. At that time, the exemption ends until the start of the next fiscal year. No

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exemption may be claimed for sales occurring on or after January 1, 2013. The authority for the exemption expires on July 1, 2013.

A qualifying buyer has not owned a home for the three years preceding the intended purchase of a home. The family's combined disposable income must be 80 percent or less of the county median. The buyer must complete a financial education seminar.

A qualifying residential housing unit must be new or foreclosed and unoccupied.

A nonprofit organization that is engaged primarily in the business of building or rehabilitating residential housing units is exempt from paying REET when the organization is exercising its option to repurchase property that is exempt from REET. This exemption also applies only to sales occurring on or before January 1, 2013. The authority for the exemption expires on July 1, 2013.

EFFECT OF CHANGES MADE BY FINANCIAL INSTITUTIONS, HOUSING & INSURANCE COMMITTEE (Recommended Substitute): The maximum statewide exemption is changed from \$1 million to \$750,000 per year. A form from the Department of Revenue must be affixed to the affidavit the seller presents to the county treasurer to claim the exemption. No REET exemption is available in counties and cities that have not also provided this exemption for the entire locally imposed REET. The qualifying seller requirement is removed. The qualifying buyer must use a fixed rate mortgage, with the 30-year fixed rate requirement removed.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: PRO: Empty homes destabilize communities and lower home values. This bill will help move houses more quickly. Consumer confidence is critical in helping stop the decline in home values. There are technical changes needed from the Department of Revenue and the county officials. The fiscal note of \$4.1 million is hard to understand given that the total REET exemption is capped at \$1 million.

CON: While in support of the bill's goals, there are technical changes that need to be made. The House substitute bill addresses those. There should be a requirement that a certificate be issued that is taken to the county treasurer so that it is clear who is, and who is not, entitled to the exemption.

Persons Testifying: PRO: Steve Williams, HomeSight; Terri Jeffreys, Realtors; Nick Federici, Washington Low Income Housing Alliance.

CON: James McMahan, Washington Association County Treasurers Office.